

Message Text

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11

ACTION EA-14

INFO OCT-01 ISO-00 EB-11 INT-08 SCEM-02 COME-00 TRSE-00

OMB-01 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00

NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20 USIA-15

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R 090740Z NOV 73

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 0184

INFO AMEMBASSY BANGKOK

AMEMBASSY MANILA

AMEMBASSY SEOUL

AMEMBASSY SINGAPORE

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMCONSUL HONG KONG

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: ENRG, RP, TW

SUBJECT: PETROLEUM CUTBACKS

REF: STATE 216846

1. SUMMARY: THE CHINESE PETROLEUM CORPORATION (CPC),
A GOVERNMENT MONOPOLY, ESTIMATES THAT THERE WILL BE A
20 TO 25 PERCENT CUTBACK IN DELIVERIES OF CRUDE OIL.
COSTS ARE EXPECTED TO CONTINUE TO ESCALATE WHICH EVENTUALLY
WILL FORCE GOVERNMENT TO LIFT CURRENT CONTROLLED PRICES
AND PERMIT CPC TO PASS ALONG AT LEAST A PORTION OF IN-
CREASED COSTS TO CONSUMERS. PLANS ARE BEING DEVELOPED
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TO CONSERVE GASOLINE, FUEL OIL AND OTHER PETROLEUM PRODUCTS

THROUGH RATIONING AND POWER CUTBACKS. EVERY EFFORT WILL BE MADE TO ASSURE ADEQUATE SUPPLIES TO INDUSTRY AND TO ESSENTIAL AREAS OF THE PUBLIC SECTOR. MAIN BURDEN OF CUTBACKS WILL BE BORNE BY PRIVATE CONSUMERS - MAINLY LESS GASOLINE AND POSSIBLY LPG (WIDELY USED FOR HOUSEHOLD COOKING). END SUMMARY.

2. PRESIDENT OF CPC ANTICIPATES THAT THE CUTBACK IN MIDDLE EAST OIL PRODUCTION WILL RESULT IN A 20 TO 25 PERCENT DECLINE IN DELIVERIES OF CRUDE OIL TO THE ROC. CRUDE REQUIREMENTS WERE ESTIMATED AT AROUND 90 MILLION BARRELS FOR 1973 WITH AN ANNUAL GROWTH RATE OF AROUND 23 PERCENT. SHOULD THE CUTBACK CONTINUE FOR AN EXTENDED PERIOD, IT WILL POSE A SERIOUS PROBLEM TO FURTHER ECONOMIC DEVELOPMENT - PARTICULARLY IN THE PETROCHEMICAL INDUSTRY WHERE AN EXTENSIVE EXPANSION PROGRAM IS UNDER WAY AND IN PLANNING STAGES. PROSPECTIVE POWER SHORTAGES COULD HAMPER OTHER INDUSTRIES, ESPECIALLY THOSE WHICH ARE LARGE CONSUMERS OF ELECTRIC POWER. IT IS ANTICIPATED THAT EXPANSION PLANS OF MOST INDUSTRIAL CONCERNS WILL BE REASSESSED AND POSSIBLY TEMPORARILY SHELVED UNTIL THE PRESENT SITUATION IS CLARIFIED.

3. THE ROC IS DEPENDENT ON THE MIDDLE EAST FOR OVER 90 PERCENT OF ITS OIL REQUIREMENTS. ONLY A SMALL PORTION ARE PURCHASED DIRECTLY. SAUDI ARABIA HAS SUPPLIED AROUND 50 PERCENT WITH KUWAIT AND IRAN SUPPLYING THE BULK OF THE REMAINDER. CRUDE IS PURCHASED THROUGH A NUMBER OF COMMERCIAL FIRMS OF WHICH GULF (30 TO 35 PERCENT) IS THE LARGEST SUPPLIER. SHELL SUPPLIES AROUND 10 PERCENT WITH THE REMAINDER PURCHASED UNDER CONTRACTUAL ARRANGEMENTS, AND OCCASIONALLY ON A ONE-SHOT DEAL, FROM ESSO, MOBIL, CALTEX, PHILLIPS, AND CONTINENTAL. GULF HAS ALREADY INFORMED CPC OF A CUTBACK IN DELIVERIES OF AROUND 34 PERCENT ON LIFTINGS FROM KUWAIT; AND SLIGHTLY LESSER AMOUNTS ON SAUDI CRUDE. 35 PERCENT OF THE CRUDE SUPPLIED BY GULF ORIGINATES IN KUWAIT. CPC HAS NOT BEEN OFFICIALLY INFORMED AS TO REDUCTIONS IN DELIVERIES BY OTHER SUPPLIERS BUT IT IS ANTICIPATED CUTS WILL BE SOMEWHAT LESS THAN THOSE IMPOSED BY GULF.

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4. ACCORDING TO CPC THE PRICE OF OIL IN RECENT WEEKS HAS JUMPED FROM AN AVERAGE OF DOLS 2.80 A BARREL TO AS HIGH AS DOLS 4.90. EXPECTATIONS ARE PRICES WILL CONTINUE TO SKYROCKET. CPC IS IN A SERIOUS FINANCIAL BIND. PRICES OF GASOLINE, FUEL OIL AND OTHER PRODUCTS CONSUMED ON TAIWAN ARE CONTROLLED, THUS PROHIBITING PRICE INCREASES WHICH COULD BE PASSED ALONG TO USERS. THE RESULT IS

THAT CPC IS INCURRING SUBSTANTIAL LOSSES DAILY. IT MAY BE POSSIBLE TO OFFSET THESE LOSSES BY AS MUCH AS 20 PERCENT, DEPENDING ON THE ABILITY OF CPC TO RAISE PRICES (WHICH ARE NOT CONTROLLED) ON BUNKERS AND AIRPLANE FUEL SUPPLIED TO NON-CHINESE SHIPS AND AIRLINES. LOSSES ARE EXPECTED TO BE FURTHER OFFSET AS PRODUCTION IS DECREASED AND IF TANKER CHARTER RATES DECLINE. APPROXIMATELY 70 PERCENT OF ROC CRUDE IS CARRIED IN CPC OWNED VESSELS WHILE THE REMAINDER IS BROUGHT IN ON CHARTERED VESSELS. NONETHELESS, CPC WILL CONTINUE TO OPERATE AT A HEAVY DEFICIT UNLESS PRICING RELIEF IS GRANTED.

5. THE ROC IS CONSIDERING A NUMBER OF CONSERVATION MEASURES. GAS RATIONING IS FOREMOST; HOWEVER, THERE WILL BE NO RATIONING OF DIESEL FUEL, WHICH IS VITAL TO THE TRANSPORTATION SECTOR AND INDUSTRY, UNLESS ABSOLUTELY NECESSARY. ELECTRIC POWER IS BEING ASSURED TO INDUSTRY BUT CUTBACKS WILL OCCUR IN OUTDOOR LIGHTING, USE OF AIR-CONDITIONERS AND HEATING IN PUBLIC, AND PROBABLY PRIVATE OFFICES, AND POSSIBLY TO THE PRIVATE CONSUMER.

A. IT IS PROPOSED THAT BUNKERS WILL BE PROVIDED IN SUFFICIENT QUANTITY TO PERMIT SHIPS TO TRAVEL TO THE NEXT PORT OF CALL OR ON THE BASIS OF PAST PERFORMANCE. AIRLINES WILL BE SUPPLIED MAINLY ON THE BASIS OF PAST PERFORMANCE, BUT IN SOME CASES MAY BE SUPPLIED ONLY IN AMOUNTS REQUIRED TO TRAVEL TO THE NEXT DESTINATION. JAPAN AIRLINES APPEARS TO BE IN FOR RATHER DRASTIC TREATMENT, NOT ONLY BECAUSE JAL HAS MORE FLIGHTS INTO TAIWAN THAN ANY OTHER AIRLINE, BUT ALSO DUE TO THE FACT THAT IN THE PAST JAL PURCHASED AS LITTLE FUEL IN TAIWAN AS POSSIBLE. JAL NOW WISHES TO "FILL-UP" WHILE STOPPING IN TAIWAN - A REQUEST LIKELY TO LIMITED OFFICIAL USE

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BE DENIED.

B. LPG, WHICH IS WIDELY USED IN HOUSEHOLD COOKING, WILL BE ALLOCATED ON THE BASIS OF PAST PERFORMANCE BUT NO NEW CUSTOMERS WILL BE ACCEPTED. CPC HOPES THAT PRESENT LEVELS OF PRODUCTION CAN BE MAINTAINED.

6. ALTHOUGH THE GOVERNMENT HAS BEEN ADAMANT IN HOLDING PRICES AT PRESENT LEVELS, CPC BELIEVES THAT EVENTUALLY THEY WILL HAVE TO BE RAISED. PRICE INCREASES, IF ANY, FOR FUEL OIL WOULD BE MODEST; WHILE GASOLINE PRICES, OVER THE AMOUNT PERMITTED UNDER RATION, COULD BE DOUBLED (GASOLINE CURRENTLY SELLS FOR AROUND DOLS .70 PER GALLON). IT ALSO HAS BEEN PROPOSED TO PROHIBIT THE IMPORT OF AUTOMOBILES WITH A CAPACITY OF OVER 4,100 CC. THIS WOULD NOT EFFECT A SUBSTANTIAL SAVINGS AS THE

IMPORT OF LARGE SIZED AUTOMOBILES IS NOT GREAT.

7. THE PRESIDENT OF CPC AND TOP-LEVEL GOVERNMENT
OFFICIALS PLAN TO TRAVEL TO THE MIDDLE EAST IN THE
NEAR FUTURE IN HOPES OF NEGOTIATING DIRECT CON-
TRACTS. CPC IS PESSIMISTIC AS TO THE CHANCES OF
ATTAINING MORE THAN TOKEN AMOUNTS.
MCCONAUGHY

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